

August 30, 2021

Ms. Sherry Hazel
American Institute of Certified Public Accountants' (AICPA)
Auditing Standards Board
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

Via Email: CommentLetters@aicpa-cima.com

Re: Proposed Quality Management Standards (three interrelated standards) designed to Enhance and Maintain a CPA Firm's Audit Quality

Dear Ms. Hazel:

Mazars USA LLP (Mazars USA) welcomes the opportunity to comment on the questions raised by the AICPA's Auditing Standards Board (ASB) in their Exposure Draft on the proposed Quality Management Standards (Proposed Quality Standards):

- Proposed Statement on Quality Management Standards (SQMS), *A Firm's System of Quality Management* (proposed SQMS No.1)
- Proposed SQMS, *Engagement Quality Reviews* (proposed SQMS No.2)
- Proposed Statement on Auditing Standards *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards* (proposed QM SAS)

Mazars USA has over 100 partners and 800 professionals across the United States (U.S.) and is an independent member firm of the Mazars Group, an organization with over 26,000 professionals in over 90 countries and territories around the world, and a member of Praxity, a global alliance of independent firms. As a member of an international network, we strive for continuous improvement, often by collaborating with our other member firms to set high standards for execution of audits and other engagements with quality throughout the Mazars Group including tailoring these standards to meet engagement performance and quality control standards established by the American Institute of Certified Public Accountants (AICPA), the auditing and related professional practice standards established by the Public Company Accounting Oversight Board (PCAOB) and the auditing, assurance and quality control standards set by the International Auditing and Assurance Standards Board (IAASB).

Our views on the Proposed Quality Standards are driven by our position in the U.S. marketplace as a medium sized public accounting firm servicing mostly small to mid-size public and private businesses in a variety of industries and as a member firm in a global network. Thus, we find ourselves subject to the professional standards for our accounting and auditing practices as promulgated by the AICPA, PCAOB and the IAASB. We are highly supportive of the ASB's strategy to converge its quality management standards with those of the IAASB and encourage the ASB to continue to dialogue with the PCAOB. The convergence of professional standards across these standard setters, will promote consistent quality management and alignment across firms and networks.

Please see our responses below to the questions in the Exposure Draft of the ASB's Proposed Quality Standards:

PART 1: SQMS No.1

Q.1. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 1 are clear and understandable and whether the application material is helpful in supporting the application of those requirements.

1a. We strongly support proposed SQMS No.1 as summarized in pages 8-14 of the Explanatory Memorandum. We are especially supportive of the customization of the design and implementation of a firm's system of quality management, using a scalable and risk-based approach, as each firm is unique in its structure and risks.

1b. We agree with the fundamental aspects of the proposed SQMS No.1, including the components of the system of quality management and the integration of the components. We appreciate the changes to expand resources to include technological and intellectual resources, the emphasis on the responsibility of firm leadership for proactively managing quality, the importance of a continuous flow of information and communication, more robustly addressing monitoring activities and understanding network requirements.

1c. Yes, the requirements in SQMS No. 1 are clear and understandable, however, as it relates to technological resources, many firms have several IT systems supporting their system of quality management. It is not clear to what extent and which IT systems should be considered in the assessment of quality risk. For example, most firms use an HR system or Learning system to maintain certain data. These systems do not have a direct effect on the quality of our engagements, nonetheless, we use the reports from these systems to monitor compliance with our quality management policies. Implementation materials to better explain the scope and related risks of technological resources would be helpful.

1d. Yes, the application materials in SQMS No. 1 are extremely helpful and will enhance our firms' ability to adopt the standards in the manner the ASB intends.

1e. No other comments.

PART 2: Scalability of SQMS NO.1

Q.2. Respondents are asked to provide their views on the scalability of the new quality management approach. In addition, the ASB is seeking respondents' views on specific requirements in proposed SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.

2a. Yes, the new quality management approach in SQMS No. 1 is scalable. The scalability of the approach proposed in the new quality management system is key in creating a standard that is fit for all firms that vary in size, nature and services provided. We agree that extant QC section 10 is outdated and not adaptable to a changing environment. We do expect audit practices to continue to advance in the future and having principle-based standards is key to designing a quality management framework that continues to remain relevant in an evolving environment. We appreciate the ASB recognizing that

firms will need to invest time and resources to implement the revised standard. We agree that the cost benefit of a scalable approach will pay off and will result in continuous improvement in audit quality.

2b. No, although additional application material may not be necessary, it would be helpful if proposed SQMS No.1 is supplemented with visual implementation materials, such as videos, and other nonauthoritative guidance with more specific examples to increase the efficiency and effectiveness of first-time implementation.

2c. We would recommend the ASB consider including additional materials noted in 2b. above for example, providing more specifics on how smaller firms may be able to support the use of informal policies, manage consultations, establish the firm's culture, and perform monitoring procedures where the related documentation may be limited.

PART 3: SQMS No. 2

Q.3. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirement.

3a. We strongly support the proposed SQMS No. 2. In our view the proposed changes to the appointment and eligibility of engagement quality reviewers and performance of engagement quality reviews are beneficial to the public interest and will enhance audit quality.

3b. Yes, the requirements in proposed SQMS No.2 are clear and understandable.

3c. Yes, the application material in proposed SQMS No. 2 is helpful in supporting the application of the requirements. Implementation materials and other nonauthoritative guidance would be beneficial particularly as it relates to

- the requirement for the engagement quality reviewer in an audit to evaluate the basis for the engagement partner's determination of their sufficient and appropriate involvement throughout the audit (proposed SQMS No. 2 para. 25.f.)
- the factors that should be considered in determining if the performance requirement of the engagement quality review has been achieved (proposed SQMS No. 2 para. 27.)
- examples of documentation recommended for the engagement quality reviewer depending on the size and complexity of the engagement.

3d. No other comments.

PART 4: QM SAS

Q.4. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in the proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.

4a. We strongly support the proposed QM SAS. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement to achieve high quality audits and agree with the proposed requirements.

4b. Yes, the requirements in the proposed QM SAS are clear and understandable. We would encourage the ASB to provide implementation and other nonauthoritative guidance, specifically as it relates to the “stand-back” requirement, including determining that the involvement of the engagement partner in the audit has been sufficient and appropriate throughout the engagement. The examples provided in the proposed QM SAS application material are clear but may have the unintended consequence of limiting the qualitative and quantitative methods/measures used or result in boilerplate responses. Implementation and other nonauthoritative guidance could address the definition of timely review – is it by actual date of sign-off or number of hours invested in each phase of the audit? Such guidance may include an emphasis on the importance of a one size does not fit all, attributes of partner involvement should be risk-based and scalable to the nature and size of the audit engagement. Without further guidance, we believe there will be inconsistency in practice and audit quality will not be enhanced as intended.

4c. Yes, the application material in proposed QM SAS is helpful in supporting the application of the requirements. See the response to 4b. above for a recommendation with respect to implementation and other nonauthoritative guidance.

4d. No other comments.

PART 5. Effective dates and implementation period

Q.5. Respondents are asked to provide their views on whether the effective dates are clear.

Yes, the intended effective dates are clear.

Q.6. Respondents are asked to provide their views on whether an 18-month implementation period is appropriate. If that period is not appropriate, please explain why and what implementation period would be appropriate.

We would encourage the ASB to consider an 18-24-month period between the issuance of the Proposed Quality Standards and the design and implementation effective dates. We note that smaller firms and firms not subject to the international quality management standards may be challenged with implementing the revised standards and may need additional resources, organization changes and adequate time to thoughtfully address the requirements of the new standards. Effective dates should be predicated on expectations for first time implementation material availability. All firms will need ample time to adopt the new standards from when the first-time implementation materials become available. Early adoption of all or individual components of proposed SQMS No.1 should be permitted. Early adoption of all or part of each of proposed SQMS No. 2 and proposed QM SAS should also be permitted.

PART 6. Other issues for consideration

Q.7. Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality.

If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level.

Strongly agree, we do not believe the self-review threat could be lowered to an acceptable level and agree that it is appropriate for the standards to require that engagement inspection be performed by those not involved in the engagement. However, we would suggest the ASB include implementation guidance and best practices to assist smaller firms.

Q.8. Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level.

8a. Yes, in our view a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement.

8b. We believe a two-year cooling off period is appropriate. Switching partners helps identify issues that may have been missed in the past, having the same person involved albeit in a different role would sacrifice this purpose. Therefore, we believe the former engagement partner should not have any involvement in the engagement during the cooling off period, except for providing an understanding of the engagement history to the new engagement team.

Q.9. Respondents are asked for their views on whether the engagement quality review should be required to be completed before the report is dated, rather than before the report is released.

9a. Yes, in our view the engagement quality review should be completed before the report is dated. This includes all material issues being resolved to the engagement quality reviewer's satisfaction before the report date.

In addition, as best practice, we believe the report should be released as soon as possible after the report is dated. Currently, our report date and issuance date are intended to be very close, and the engagement quality control reviewer is required to complete their review and sign-off prior to issuance.

PART 7. Demographic data

Organization Name: Mazars USA LLP

Firm size: 100 partners, 800+ total professionals. Approximately, 50 partners perform engagements under the professional standards of the AICPA (audits, reviews, compilations, AUPs and SOC reports).

Concluding comments:

We applaud the ASB in this effort of improving audit quality through revising the current quality standards and overall support the Proposed Quality Standards. We appreciate the ASB extending this opportunity to comment, and we look forward to the ASB's consideration of our responses.

We would be pleased to discuss our responses with you at your convenience.



Please direct any questions to:

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Very truly yours,

Mazars USALLP

Mazars USA LLP

cc: Tracy Harding, ASB Chair